

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6555

BILL NUMBER: HB 1116

NOTE PREPARED: Mar 4, 2014

BILL AMENDED: Mar 3, 2014

SUBJECT: Alcohol Sales at Inns on State Owned Land.

FIRST AUTHOR: Rep. Dermody

FIRST SPONSOR: Sen. Yoder

BILL STATUS: As Passed Senate

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: (Amended) This bill has the following provisions:

Inns on State-Owned Land - It allows the Department of Natural Resources (DNR) to permit, in the terms of a lease or contract concerning state-owned land under the management and control of the DNR, the retail sale of alcoholic beverages for consumption on the licensed premises of an inn if the lessee or concessionaire applies for and secures the necessary permits. (Current law allows only for a lease or contract that concerns federally owned land under the control and management of the DNR.)

Artisan Distilleries - It amends permit requirements for certain artisan distillers.

Provisions Regarding Microbreweries - It requires that, for a brewery to qualify as a microbrewery, the entire brewing process of the beer must occur in Indiana. The bill excludes certain sales and samples of beer from the 30,000 barrel limit for small brewers. It also allows a microbrewery to sell the brewer's beer to consumers for carryout at a farmers' market that is operated on a nonprofit basis, in a quantity of not more than 576 ounces per consumer at any one time. The bill allows a microbrewery, with the approval of the Alcohol and Tobacco Commission, to participate in a trade show or an exposition for not more than 45 days in a calendar year.

Retailer's Permits - It allows the holder of an artisan distiller's permit that also holds a microbrewery permit to hold a retailer's permit for a restaurant. It makes an exception to a provision that prohibits the holder of an artisan distiller's, a distiller's, or a rectifier's permit to own, acquire, possess, or cause to be transferred to the holder shares of stock of a corporation that holds an Indiana permit to sell alcoholic beverages at retail, or in a permit to sell at retail in Indiana, or to own or acquire an interest in the business being conducted

under the permit, or in or to shares of stock in a corporation that owns a permit to sell at retail.

Farm Winery Direct Sales to a Retailer or Dealer - It allows a farm winery permittee to sell not more than a total of 5,000 gallons of wine that is priced at less than \$301 per gallon during a permit year to holders of wine retailer's permits or wine dealer's permits.

Effective Date: July 1, 2014.

Explanation of State Expenditures: (Revised) *Alcohol and Tobacco Commission (ATC)* - Several of the bill's provisions could increase the ATC's administrative costs. The bill's requirements are within the agency's routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

Explanation of State Revenues: *Summary-*

Inns on State-Owned Land - If the DNR permits the sale of alcoholic beverages at inns on state-owned land, state revenues from permit fees and alcoholic beverage sales could potentially increase. However, the amount of the increase would likely be small and would depend on the number of permits the ATC grants.

(Revised) *Provisions Regarding Microbreweries* - The provisions that (1) exclude certain sales of beer from the 30,000 barrel limit, (2) allow a microbrewery to sell beer at a farmers' market, and (3) allow a microbrewery to participate in a trade show or exposition could potentially increase alcoholic beverage sales by an indeterminable amount. Revenue from the alcoholic beverage tax and the sales tax could increase to the extent that these provisions increase total sales.

(Revised) *Retailer's Permits* - The bill allows an artisan distiller who also holds a microbrewery permit to hold a beer, wine, or liquor retailer's permit for a restaurant. This provision could potentially increase the number of retailer's permits issued by the ATC by a small amount.

(Revised) *Farm Winery Direct Sales to a Retailer or Dealer* - This bill allows a farm winery permit holder to sell up to 5,000 gallons each year directly to holders of retailer's and dealer's permits that are located in the same county as the farm winery or in a contiguous county. The estimated impact on alcoholic beverage tax revenue is likely to be minimal, and sales tax revenue could decrease slightly. The maximum net impact on state revenues is shown in the table below.

Maximum Estimated Increase (Decrease) in State Revenues	
Fiscal Year	Net Impact
2015	(\$85,900 - \$130,200)
2016	(\$100,100 - \$151,800)

Additional Information-

(Revised) *Sources of Revenue* - Alcoholic beverage tax revenue is distributed in varying amounts to the following funds: state General Fund, Post War Construction Fund, Enforcement and Administration Fund, Pension Relief Fund, Addiction Services Fund, and Wine Grape Market Development Fund. Fifty percent of the General Fund distribution is set aside for General Fund purposes, and 50% is allocated to cities and towns based on population.

Sales tax revenue is deposited in the state General Fund (98.848%), the Motor Vehicle Highway Account (1%), the Commuter Rail Service Fund (0.123%), and the Industrial Rail Service Fund (0.029%).

The annual fee for a retailer's permit is \$500 if the retailer serves only beer or only wine; \$750 if the retailer serves both beer and wine but no liquor; or \$1,000 if the retailer serves beer, wine, and liquor. This revenue is distributed to the state General Fund (37%); the general funds of cities, towns, and counties based on population (33%); and the Enforcement and Administration Fund (30%).

(Revised) *Farm Winery Direct Sales to a Retailer or Dealer* - The revenue estimates in the table above are based on the average price data estimated by the U.S. Bureau of Labor Statistics and typical wholesale and retail markup rates estimated by the Federal Trade Commission.

The revenue estimates assume that the price of the wine sold by farm wineries directly to retailers and dealers will be lower than current prices charged by wholesalers. The estimated state revenue loss would be lower to the extent that the price charged by farm wineries to retailers and dealers is the same as the price that would have been charged by a wholesaler. In addition, the impact on sales tax revenue may be lower to the extent that consumers spend any money they may save on wine on other items subject to sales tax.

Currently, there are 76 licensed Indiana farm wineries. Based on historical data from the U.S. Census Bureau, this number is expected to increase over the next few years. The estimates in the table above are based on the assumption that all in-state farm wineries will sell 5,000 gallons of wine directly to retailers and dealers. The impact on alcoholic beverage tax revenue could be greater to the extent that the bill encourages a larger increase in the number of Indiana farm wineries.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) Local revenues could increase to the extent that a local unit receives allocations from permit fee, sales tax, or alcoholic beverage tax revenue.

State Agencies Affected: Department of Natural Resources; Alcohol and Tobacco Commission.

Local Agencies Affected:

Information Sources: U.S. Bureau of Labor Statistics, Consumer Price Index. Federal Trade Commission, "Possible Anticompetitive Barriers to E-Commerce: Wine", July 2003. Wagenaar, Alexander C., et al., "Effects of beverage alcohol price and tax levels on drinking: a meta-analysis of 1003 estimates from 112 studies", 2009. U.S. Census Bureau, County Business Patterns. ATC online permit search.

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